

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Administrative Office	(2) MEETING DATE 2/17/2015	(3) CONTACT/PHONE Guy Savage, Assistant CAO, 805-781-5011	
(4) SUBJECT Fiscal Year 2015-16 County and State Budget update. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board receive and file a presentation regarding the Fiscal Year 2015-16 County and State budgets.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? N/A
(10) AGENDA PLACEMENT { } Consent { } Presentation { } Hearing (Time Est. ____) {x} Board Business (Time Est. <u>45 min</u>)			
(11) EXECUTED DOCUMENTS { } Resolutions { } Contracts { } Ordinances {x} N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A { } 4/5 Vote Required {x} N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY { } N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW This item was prepared by the Administrative Office.			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Administrative Office
Emily Jackson, Budget Director, 805-781-5011
Guy Savage, Assistant CAO, 805-781-5011

DATE: 2/17/2015

SUBJECT: Fiscal Year 2015-16 County and State Budget update. All Districts.

RECOMMENDATION

It is recommended that the Board receive and file a presentation regarding the Fiscal Year 2015-16 County and State budgets.

DISCUSSION

Departmental budgets were submitted to the Administrative Office on January 29, 2015 and are preliminary review is currently underway. As a result, an updated forecast for the General Fund budget for FY 2015-16 is still being developed. Back in October 2014, the forecast was that \$4-7 million of General Fund would be available. After a preliminary review of departmental budget submittals, it appears that \$6-8 million of General Fund is available.

FY 2013-14 was the last year where a structural budget gap had to be closed and the final year of oft-described "seven year pain plan." FY 2014-15 was the first year where moderate increases were included in the budget planning process, but financial uncertainty remained. FY 2015-16 will be the second year where discussion can be held about how best to use available funds as opposed to determining how to close a structural budget gap or allocate precious additional funds.

As the County enters its "new normal" era of smaller annual increases of revenues when compared to those experienced in the 1990s and early 2000s, it will need to continue to balance its desires for increases in three areas:

- Programs and Services
- Financial Security
- Salaries and Benefits

As has been discussed in multiple forums, a strategic approach to cutting all three areas was deployed during the seven year pain plan. Per Board direction, a similar, strategic approach will be used to grow each of the three areas accordingly.

Programs and Services

During FY 2014-15, approximately \$5 million of General Fund was added back into programs and services. This included a one-time \$2 million investment in roads, augmentations for Fire staffing, additional Sheriff staffing, on-going augmentations for roads, as well as other program and services increases.

As noted above, FY 2015-16 Status Quo submittals from departments are still being evaluated. At this point in time, nearly 90 requests for increases to program and services have been reviewed. The reviewed requests total nearly \$9 million in General Fund and \$16 million in overall funding.

Financial Security

The two primary components to the County's financial security are reserves/designations and contingencies. Due to a combination of higher than anticipated Fund Balance Available (FBA) in recent years and additional funds set aside for

projects, current reserve/designation balances are at just over 23% of General Fund, exceeding the County's target of 20% and in the range of local government "best practices" of 20-25%.

Contingencies are intended for two purposes: to cover the costs of unforeseen emergencies and to supplement departmental budgets. The latter situation is occasionally encountered when negotiated salary and benefit increases cannot be absorbed in departmental budgets and will be discussed below under Salaries and Benefits. Per Board direction, FY 2014-15 contingencies are funded at 4.5% of the General Fund. Contingencies were reduced from 5% to 4% as a budget balancing strategy during the economic downturn. In FY 2014-15, contingencies were partially restored, to 4.5%; but are still .5% lower than the Board policy of 5% and a lingering effect of the seven year pain plan. Based on FY 2014-15 General Fund budget amounts, returning contingencies to 5% would require that an additional \$2.27 million be set aside.

Salaries and Benefits

During FY 2014-15, the Board approved negotiated increases to salaries and benefits for the majority of County employees. For many employees, these were the first salary increases seen in over five years. As noted under Financial Security, anticipated salary and benefit increases are not "built into" departmental budgets in the current year. Instead, departments are expected to absorb these increases during the year they are initially incurred. Absorbing salary increases is often possible due to savings created by vacancies in departmental staffing, other savings generated by departments, or unanticipated increases in departmental revenues. However, when departments are not able to absorb the increased costs, contingencies are used to cover the portion that cannot be absorbed.

During the presentation, the County's Budget Goals and Policies (attachment 1) and Budget Balancing Strategies and Approaches (attachment 2) will be briefly reviewed as well as the next steps in the budgeting process. These Budget Balancing Strategies and Approaches have been in place for many years and are annually reviewed by the Board (most recently on November 25, 2014). The budget instructions distributed to departments in December 2014 were prepared consistent with the Board adopted budget goals and policies, and balancing strategies and approaches.

Finally, a brief overview of the Governor's proposed FY 2015-16 State budget will be presented. As has been reported in prior presentations, the State continues to be the number one influencer on the County's overall budget. Heading into FY 2015-16, there are numerous changes occurring at the State level that are likely to have impacts on local budgets. Possibly the largest impacts, in no particular order, will be changes to:

1. 2014 Water bond (Proposition 1)
2. AB109 (Public Safety Realignment) growth
3. Gasoline taxes
4. Medi-Cal allocations
5. Pre-2004 mandate reimbursements
6. Cap and Trade distributions for sustainable communities

Each of these will be briefly discussed as part of the presentation.

OTHER AGENCY INVOLVEMENT/IMPACT

All County departments participate in the creation and administration of the County budget.

FINANCIAL CONSIDERATIONS

N/A

RESULTS

Provide the Board of Supervisors and public with an update regarding the County and State budgets for FY 2015-16.

ATTACHMENTS

1. FY 2015-16 Budget Goals and Policies
2. FY 2015-16 Budget Balancing Strategies and Approaches